

Research Update:

U.K. Social Housing Provider Karbon Homes Ltd. 'A' Ratings Affirmed; Outlook Stable

May 18, 2026

Overview

- Higher required investment in existing homes modestly weakens Karbon Homes Ltd.'s credit metrics compared to our previous forecasts.
- We believe that Karbon will contain further pressure on its financial metrics by managing costs and cutting back on debt-funded development, once it completes its existing strategic partnership with Homes England.
- We therefore affirmed our 'A' ratings on Karbon Homes Ltd.
- The stable outlook reflects our view that management's cost controls and contained development plans will help balance pressure from higher investment in existing homes.

Rating Action

On May 18, 2026, S&P Global Ratings affirmed its 'A' long-term issuer credit rating on U.K.-based social housing provider Karbon Homes Ltd. and its 'A' issue rating on the group's £250 million bond. The outlook is stable.

Outlook

The stable outlook reflects our view that financial metrics will be supported by the rent from new and existing units and limited further debt-funded development, which should balance the impact from elevated planned investments in housing stock.

Downside scenario

We could lower the rating on Karbon if management loosens cost controls, materially increases its investments in existing homes, or pursues greater debt-funded development, leading to weaker financial metrics such that S&P Global Ratings-adjusted non-sales EBITDA interest coverage falls to 1.0x on a sustained basis.

Upside scenario

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We could raise the rating if Karbon's financial metrics improve materially beyond our current expectations. This could happen if the group secures more grants to support required investments in housing stock or if cost controls prove more effective than we currently project.

Rationale

The affirmation reflects our expectation that Karbon's credit metrics will remain largely stable, albeit modestly weaker compared to our previous expectations. Karbon, like peers in the sector, is facing high costs related to demand for responsive repairs, for example to address damp and mold, as well as spending related to void turnaround. These--alongside an increase in planned repairs and component replacements--will keep costs elevated through our forecast horizon. Because of the higher costs associated with existing stock, and in order to maintain its financial risk profile, Karbon is investigating development options to minimize debt needed for new developments, while continuing to add new homes to sector. Overall, we expect management's cost controls and contained development plans to balance pressure from higher investment in existing homes.

Enterprise risk profile: Supported by low-risk operations and predictable revenue sources, limited exposure to sales, and strong management practices

In our view, Karbon benefits from generating most of its income in the predictable and countercyclical social housing sector. Additional support stems from the group's solid regional market position and generally cautious approach to sales. The group owns and manages roughly 35,000 homes in the northeast of England and, through its subsidiary 54North Homes, has a foothold further south, in Yorkshire. We consider that Karbon operates in an area where the gap between average affordable rent to market rent is tighter compared with the rest of England. Still, Karbon continues to see solid demand for its properties. The group's vacancy rates, at roughly 1.8% over the past three audited years, are on par with the sector average.

We believe management is pulling levers through cost controls and adjustments to its development program to contain pressure on metrics. Although we forecast financial metrics to be slightly weaker, we think management will maintain conservative financial policies and a prudent strategy, underpinned by strong oversight of its housing assets. We note Karbon contains contingencies in plans and despite elevated investments, we view Karbon's stock quality as solid at just under 80% of homes with Energy Performance Certificate at C or above.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (see "[Regulatory Framework Assessment: Strong For Social Housing Providers In The U.K.](#)," published April 17, 2025, on RatingsDirect).

Financial risk profile: Debt metrics remain relatively solid despite elevated investments in existing homes.

We expect Karbon's S&P Global Ratings-adjusted EBITDA margins to remain close to, but below, 20% due to high investments in existing homes, which is slightly below previous expectations. As a result of Karbon's investment cycle peaking in fiscal 2030, we expect costs to remain elevated over our forecast horizon. We anticipate some improvement in financial performance relative to the fiscal year ending March 31, 2026 as repairs stabilize--albeit at elevated levels--and growth in turnover outpaces cost increase. We expect management will strive to achieve efficiencies, defer any non-essential spend, and secure additional grant where possible to contain pressure.

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We anticipate debt metrics will be modestly weaker than our previous base case. This is due to subdued S&P Global Ratings non-sales adjusted EBITDA and continued debt issuance to fund the remainder of Karbon's existing strategic partnership program with Homes England, which we expect to be completed in the next two years. Following this, our base case assumes a wind down of capital expenditure as Karbon is limiting development commitments while exploring options for establishing a partnership that will not strain Karbon's credit metrics. Despite slightly higher debt in our current projections, metrics remain solid, with debt to non-sales EBITDA at roughly 18x and interest coverage at about 1.3x.

We view Karbon's liquidity as very strong. Sources of liquidity are estimated to cover uses by about 1.7x over the next 12 months. This is based on our forecast of liquidity sources of close to £294 million (mainly comprising cash and undrawn available facilities, fixed asset sales proceeds, grant receipts, and cash from operations) compared with liquidity uses of approximately £170 million (primarily capital expenditure, interest, and principal repayments). We also consider that Karbon maintains satisfactory access to external funding.

Government-related entity analysis

We think there is a moderately high likelihood that Karbon would receive timely extraordinary government support in case of financial distress. This provides a one-notch uplift from the stand-alone credit profile. As one of the Regulator of Social Housing's (RSH's) key goals is to maintain lender confidence and low funding costs across the sector, we believe it is likely that the RSH would likely step in to try to prevent a default in the sector. We base this view on previous records of the RSH mediating mergers or arranging liquidity support from other registered providers in cases of financial distress and think this would also apply to Karbon.

Key Statistics

Table 1

Karbon Homes Ltd.--Key Statistics

Mil. £	--Year ends March 31--				
	2025a	2026e	2027bc	2028bc	2029bc
No. of units owned or managed	33,979	34,290	34,603	34,888	34,957
Adjusted operating revenue*	213.9	221.0	230.5	239.1	247.7
Adjusted EBITDA*	41.0	36.3	44.4	47.6	47.6
Non-sales adjusted EBITDA*	40.4	36.3	44.4	47.6	47.6
Capital expense	143.0	139.3	131.3	66.9	12.6
Debt	571.7	677.9	803.3	844.2	838.2
Interest expense	23.0	27.2	32.9	36.3	36.5
Adjusted EBITDA/Adjusted operating revenue (%)*	19.1	16.4	19.3	19.9	19.2
Debt/non-sales adjusted EBITDA (x)*	14.2	18.7	18.1	17.7	17.6
Non-sales adjusted EBITDA/interest coverage (x)*	1.8	1.3	1.3	1.3	1.3

*Adjusted by S&P Global Ratings. a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

Rating Component Scores

Table 2

Karbon Homes Ltd.--Ratings Score Snapshot

Assessment	Score
Enterprise risk profile	3
Industry risk	2
Regulatory framework	3
Market dependencies	4
Management and Governance	2
Financial risk profile	4
Financial performance	5
Debt profile	4
Liquidity	2
Stand-alone credit profile	a-
Issuer credit rating	A

S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers](#), June 1, 2021
- [General Criteria: Rating Government-Related Entities: Methodology And Assumptions](#), March 25, 2015
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [Non-U.S. Social Housing Providers Ratings Risk Indicators: Ratings Hold Steady Despite Negative Bias](#), April 27, 2026
- [Non-U.S. Social Housing Providers Ratings History: March 2026](#), April 27, 2026
- [United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable](#), April 10, 2026
- [U.K. Social Housing Brief: The Middle East War Weighs Only Modestly On Financial Recovery](#), April 2, 2026
- [Economic Outlook Europe Q2 2026: Global Shock Leaves Recovery Uncertain](#), March 25, 2026
- [European Housing Markets: Structural Pressures Persist, Forecasts Barely Shift](#), Feb. 3, 2026
- [Non-U.S. Social Housing Sector Outlook 2026: Headwinds Ease](#), Feb. 2, 2026

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- [U.K. Autumn Budget Isn't Too Bad For Public Finance Sector](#), Dec. 1, 2025
- [Regulatory Framework And Systemic Support Assessments For Nonprofit Social Housing Providers](#), Sept. 10, 2025
- [U.K. Social Housing Providers: Extra Development Grants Won't Improve Financial Headroom](#), June 26, 2025
- [Regulatory Framework Assessment: Strong For Social Housing Providers In The U.K.](#), April 17, 2025

Ratings List

Ratings List

Ratings Affirmed

[Karbon Homes Ltd.](#)

Issuer Credit Rating	A/Stable/--
Senior Secured	A

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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